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Fact Sheet for the Chairman, Committee
on the Budget, U.S. Senate

August 1988

BUDGET ISSUES

Information on FDIC and FSLIC Notes Payable





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-227245

August 5, 1988

The Honorable Lawton Chiles
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

This is our final response to your February 22, 1988, letter in which you asked us to provide the Committee with a list of programs that have the authority to use monetary credits or bartering and, whenever possible, to identify the dollar value of this type of spending over the past several years. You asked us to include in the list (1) the generic commodity certificates issued by the Commodity Credit Corporation and (2) an estimate of notes issued as part of assistance agreements to acquirers of failing banks by the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC).

As agreed with your office, we provided estimates of the total amount of notes issued by these entities, rather than just those issued to acquirers of failing banks. To meet your Committee's initial needs, we based our letter dated February 29, 1988 (B-227245), on our past and ongoing work. That work did not encompass this type of information about FDIC or FSLIC. This report provides the additional information on the two entities.

FDIC and FSLIC were created to provide protection for bank and savings and loan depositors up to a specified limit. They generally provide this protection by either preventing failures or by paying depositors up to \$100,000 in insurance if an institution is closed by its regulators. Preventive measures are often accomplished in one of two ways: (1) providing financial assistance to enable an institution to remain operating or (2) encouraging a healthy institution through merger to purchase all or a part of a troubled financial association's or institution's assets.

In June 1986, to enhance its flexibility in dealing with failed and failing banks, FDIC began issuing interest-paying notes to the purchasers of these institutions. In many cases, an acquiring bank can choose to take all or part of its FDIC assistance in the form of these notes. The notes have been attractive to many banks, particularly in the Midwest, because they have little interest in cash due to the weak demand for new borrowing. FSLIC also issues similar notes to acquirers of failed and failing savings and loan associations. It also issues them to ailing thrift institutions which may be able to remain operating with the provision of notes or other assistance.

Office of Management and Budget guidance requires the FDIC and FSLIC notes to be recorded as both obligations and outlays when issued. In the past, notes were recognized as outlays only when cash was disbursed.

FDIC and FSLIC provided us with data on the dollar value of notes issued in fiscal years 1986, 1987, and 1988. The officials provided some additional information on note redemptions and principal reductions and on the balances of notes outstanding. This information may be of interest to you, and we have included it in this report. We did not verify the data provided by FDIC or FSLIC.

Table 1 shows the total dollar amount of FDIC notes issued, principal reductions made, and the notes' beginning and ending balances, by fiscal year. The fiscal year 1988 amounts represent the amounts issued and principal reductions made through April 1988.

Table 1: Status of FDIC Notes Payable¹

	<u>Fiscal year</u>		
	<u>1986</u>	<u>1987</u>	<u>1988</u> (Through April 30)
	----- (millions) -----		
Beginning balance ²	\$4,801	\$4,331	\$3,498
Notes issued	466	1,126	997
Principal reduction on notes	935	1,961	431
Ending balance	4,331	3,498	4,063

Table 2 shows the total dollar amount of FSLIC notes issued and redeemed and the notes' beginning and ending balances, by fiscal year. The fiscal year 1988 amounts represent the amounts issued and redeemed through June 1988.

Table 2: Status of FSLIC Notes Payable

	<u>Fiscal year</u>		
	<u>1986</u>	<u>1987</u>	<u>1988</u> (Through June 30)
	----- (millions) -----		
Beginning balance	\$1,337	\$3,692	\$3,225
Notes issued	2,913	469	2,128
Redeemed	557	937	216
Ending balance	3,692	3,225	5,137

¹Income maintenance agreements are excluded from these totals because they are often revalued. None were issued in fiscal years 1986, 1987, or 1988.

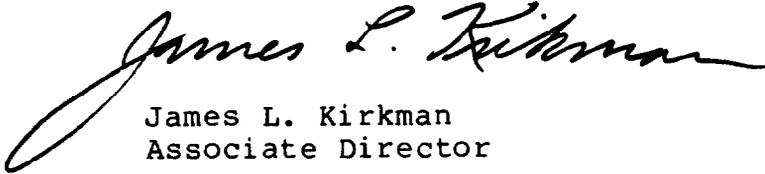
²For both table 1 and table 2, due to rounding, the balances may not correspond to the amounts shown for notes issued, redeemed, or principal reductions.

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Responsible officials of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board (which administers FSLIC programs) provided comments on this report. These have been incorporated where appropriate.

We are sending copies of this report to the Federal Deposit Insurance Corporation; the Federal Home Loan Bank Board; the Director, Office of Management and Budget; and the Director, Congressional Budget Office. Copies will be made available to others upon request. If you have any questions about the contents of this report, please contact me at 275-9573.

Sincerely yours,

A handwritten signature in cursive script that reads "James L. Kirkman". The signature is written in black ink and is positioned above the typed name and title.

James L. Kirkman
Associate Director

(935046)

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